

Choosing the correct legal status of a business

Entrepreneurs who are starting new businesses are urged to carefully consider the legal status and type of business being registered, as it can have both cost, tax and legal implications in the long-term.



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Daniel Kaan, CEO of Business Core Banking, says all companies might be businesses, but not all businesses are, in the legal sense, companies. It's an important distinction, with several implications for business owners, implications that can affect how you optimise revenues and ensure longevity.

He unpacks the importance of having the right legal status for a business:

- **Sole Proprietors**

Many small and service-oriented businesses choose to operate as sole proprietors; it's the simplest kind of business structure and does not need to be registered.

As an owner, you would be the sole proprietor and can trade under your own name, with no separation between personal and business assets and liabilities. This means that as a sole proprietor you benefit from all the profit and assets accumulated through the business, but you are also liable for any debt that the business incurs.



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- **Private Companies**

A private company is its own legal entity that is separate to the owner.

Therefore, by choosing to register a private company, you, as a business owner, take less risk than if you were trading in your own name as a sole proprietor. A registered company can also trade in the formal business sector and bid for government tenders.

A private company is eligible for numerous tax benefits/deductions such as business expenses, auto expenses, medical aid, office space and lower income tax rates. Smaller private companies do not pay audit fees. Together with the savings that can be made through tax and VAT, private companies often end up being the cheapest and most suitable legal format for a business.

Private companies can have several or even only one director, so decisions can be made quickly. There is also no need to publish financial accounts.

“If you decide to start a private company and not operate as a sole proprietor, you will need to register it at the Companies and Intellectual Properties Commission, commonly known as CIPC. FNB, in partnership with CIPC, provides a free facilitation service to register your company and get a business account in the same process,” says Kaan.

The cost of registering a company at CIPC is R125, and company registration with name reservation costs R175. ID documents of all directors are needed. The process can be completed online and registration with CIPC can take up to 10 days provided all documents required are submitted.

It is recommended that entrepreneurs obtain professional advice on the most suitable type of legal entity for their specific business needs.

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